

**AUDIT REPORT OF  
FLEMING COUNTY SHERIFF**

Calendar Year 2005

**Donna Bouvier  
Certified Public Accountant**

**Member: American Institute of Certified Public Accountants  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FLEMING COUNTY SHERIFF**

**For The Year Ended  
December 31, 2005**

I have completed the Fleming County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$14,884 from the prior calendar year, resulting in excess fees of \$12,115 as of December 31, 2005. Revenues decreased by \$55,404 from the prior year and expenditures decreased by \$40,520.

#### **Report Comments:**

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits as of December 31, 2005, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$58,213

## CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	7
COMMENTS AND RECOMMENDATIONS	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	13

**Donna Bouvier  
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P O Box 150  
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The Honorable Larry Foxworthy, Fleming County Judge/Executive  
Honorale Jerry Wagner, Fleming County Sheriff  
Members of the Fleming County Fiscal Court

Independent Auditor's Report

I have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Fleming County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Sheriff. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statement referred to above presents fairly in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting.

In accordance with *Government Auditing Standards*, I have issued a report dated August 25, 2006, on my consideration of the County Sheriff's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Honorable Larry Foxworthy, Fleming County Judge/Executive  
Honorable Jerry Wagner, Fleming County Sheriff  
Members of the Fleming County Fiscal Court

Based on the results of my audit, I have presented the accompanying comments and recommendations, included herein, which discussed the following report comments:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement to Protect Deposits.
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Fleming County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

*Donna Bouvier*

Donna Bouvier  
Certified Public Accountant

August 25, 2006

FLEMING COUNTY  
JERRY WAGNER, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES –  
REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants		\$	32,964
State Grants			38,569
State - Kentucky Law Enforcement Foundation Program Fund			36,774
State Fees For Services:			
Finance and Administration Cabinet			20,386
Circuit Court Clerk:			
Fines and Fees Collected	\$	1,390	
Court Ordered Payments		<u>789</u>	2,179
Fiscal Court			67,854
County Clerk - Delinquent Taxes			1,359
Commission On Taxes Collected			145,347
Fees Collected for Services:			
Auto Inspections		5,883	
Accident and Police Reports		187	
Serving Papers		13,115	
Carrying Concealed Deadly Weapon Permits		<u>4,525</u>	23,710
Other:			
Task Force Reimbursement		101,873	
Transport to Eastern and Prison		1,027	
Sheriff's Add-on Fees		17,424	
Sheriff's Adverting Fees		1,428	
Miscellaneous		8,402	
Postage		<u>4,093</u>	134,247
Interest Earned			629

The accompanying notes are an integral part of the financial statement.

FLEMING COUNTY  
JERRY WAGNER, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES-REGULATORY BASIS  
For The Year Ended December 31, 2005

(Continued)

Revenues (Continued)

Borrowed Money

State Advancement	\$	166,056	
Bank Note		<u>13,800</u>	<u>\$ 179,856</u>

Total Revenues			<u>683,874</u>
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Expenditures

Operating Expenditures and Capital Outlay:

Personal Services-

Deputies Salaries	\$	254,581
KLEFPF Salaries		27,900

Employee Benefits-

Employer's Share Social Security	9,183
Employer's Share Hazardous Duty Retirement	35,953
Employer's Paid Health Insurance	6,830
Workermen's Compensation and Unemployment	5,897

Contracted Services-

Advertising	141
Vehicle Maintenance and Repairs	13,362
Communications	3,888

Materials and Supplies-

Office Materials and Supplies	7,190
Uniforms	2,421

Auto Expense-

Gasoline	19,575
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Other Charges-

Fiscal Court Fees	4,170	
Postage	4,335	
Jury Meals	685	
Carrying Concealed Deadly Weapon Permits	3,340	
Miscellaneous	1,012	
Training	<u>6,330</u>	<u>406,793</u>

The accompanying notes are an integral part of the financial statement.

FLEMING COUNTY  
JERRY WAGNER, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES-REGULATORY BASIS  
For The Year Ended December 31, 2005  
(Continued)

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The accompanying notes are an integral part of the financial statement.

- 5 -

NOTES TO FINANCIAL STATEMENT



FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1: Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 64.152 requires the County Sheriff to settle excess fees with the fiscal court when the final settlement is presented to fiscal court.

The financial statement has been prepared on regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods and services provided in 2005

The measurement focus of fee officials is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

- 7 -

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2: Employees Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

- 8 -

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 3: Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240 (4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. The Sheriff did not have a written agreement with the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). On December 31, 2005, \$58,213 of the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$58,213.

#### Note 4: Drug Forfeiture Fund

The Sheriff's Department maintained an account for the purpose of receiving assets forfeited to the Commonwealth as a result of legal proceedings. Expenditures from this account are to be used for direct law enforcement. The account had a beginning balance of \$16,886. Receipts during the year totaled \$4 and disbursements were \$230, leaving a balance of \$16,660.

#### Note 5: Grants

##### A. Violence Against Women Act Grant

The Sheriff was awarded a Violence Against Women Act grant from the Kentucky Justice and Public Safety Cabinet in the amount of \$38,569 in 2005. Funds totaling \$38,569 were received and expended during the calendar year.

##### B. COPS In School Grant

The Sheriff was awarded a COPS In School Grant from the United States Department of Justice in the amount of \$89,507 in 2003. Funds totaling \$40,813 were expended in prior years. Expenditures during calendar year 2005 totaled \$32,964, leaving a balance of \$15,730.

#### COMMENTS AND RECOMMENDATIONS

FLEMING COUNTY  
JERRY WAGNER, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On December 31, 2005, \$58,213 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff also did not have a written agreement with the financial institution to secure his interest in the collateral pledged or provided by the depository institution. I recommend the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all

times. I also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. paragraph 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response: O.K.*

#### INTERNAL CONTROL-REPORTABLE CONDITION AND MATERIAL WEAKNESS:

##### The Sheriff's Office Lacks Adequate Segregation Of Duties

I conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size that prevents adequate division of responsibilities. I recommend the following compensating controls be implemented to offset this internal control weakness:

- Two signatures should be required on all checks, one being the Sheriff.
- Monthly bank statements should be received from the bank and reviewed by the Sheriff before being given to the bookkeeper for reconciliation. This could be documented by the Sheriff initialing and dating the envelope of the bank statement.

*Sheriff's Response: O.K.*

##### Prior Year:

In the prior year audit, it was reported that the sheriff's office lacks adequate segregation of duties. This finding has not been corrected and is reported above.

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**P O Box 150**  
**Hartford, KY 42347**  
**270-316-3771**

The Honorable Larry Foxworthy, Fleming County Judge/Executive  
Honorable Jerry Wagner, Fleming County Sheriff  
Members of the Fleming County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit of The Financial Statement  
Performed In Accordance With Government Auditing Standards**

I have audited the statement of revenues, expenditures, and excess fees – regulatory basis of the Fleming County Sheriff for the year ended December 31, 2005, and have issued my report thereon dated August 25, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. I conducted my audit in accordance with auditing standards

generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Fleming County Sheriff's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above is a material weakness.

- 13 -

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An  
Audit of The Financial Statement Performed In Accordance  
With *Government Auditing Standards*  
(Continued)

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fleming County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comments and recommendations.



- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement to Protect Deposits.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Donna Bouvier*

Donna Bouvier  
Certified Public Accountant

August 25, 2006